will see that in the matter of education and genuine concern for the welfare of the native, the record of Cape Colony stands in sharp contrast to the brutality of some Australian and American States, and is far higher than that of other South African States. South Africa will never be wholly a white man's country; it will never be wholly a black man's country. It is therefore essential that all races should work harmoniously with each other, and our most fervent prayer may well be that they may never be brought into disastrous conflict. The rise of an intelligent native population will make for the desired end, and furnish, perhaps, a much-needed object lesson to the world.

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IS STOCK WATERING IMMORAL?

Stock watering, or overcapitalization, has of late become a subject of quite general interest. It is discussed in the press, on the platform, and in legislative halls. Its prevalence in railway finance is alleged to be one of the chief reasons why the Interstate Commerce Commission desires to have a valuation of the railroads of the United States. Some of the states have recently taken steps to have the same thing done for the railways within their borders, as well as to supervise more closely the capitalization of public service corporations generally. Underlying all the discussions of the matter, and all the legal proposals and enactments, is the conviction that stock watering and its results are improper and injurious to the public welfare. What are the grounds of this belief and to what extent is it well founded?

As the composition of the phrase implies, "watered stock" embodies the general idea of *excess*. It means stock in excess of the proper capitalization of a business. What is proper capitalization? Most corporation directors and some economists maintain that it is capitalization which corresponds

with earning power. For them watered stock means stock upon which the earnings of a concern will not pay normal dividends. To put it in another way, a company is over-capitalized when the face value of its securities is more than their market value. The generality of people describe proper capitalization in terms of *cost,* and define watered stock accordingly. But all do not agree in the interpretation of cost. In the "Final Report" of the United States Industrial Commission, we read: "Stock watering may be defined as the issuing of securities that do not represent money invested in the property" (page 405). "Water," therefore, comprises that portion of a company's securities that exceeds the amount expended for the creation, purchase, or permanent improvement of a business. This is the popular understanding of the term. Political economists favor as the basis of capitalization not original cost but cost of reproduction. In the present paper stock watering is understood with reference to one or the other of these two standards, never with reference to earning power.

The morality of stock watering is determined by its methods, its purposes, and its effects. "Formerly," to quote the Industrial Commission, "sheer fraud was often practiced in issuing stock for speculative purposes." The classical example is Daniel Drew's action of increasing the capitalization of the Erie Railroad from $17,000,000 to $78,000,000, in order to manipulate the stock market. Giving excessive sums to dummy construction companies, composed of members of the railway corporation; purchasing property as a subsidiary corporation and then selling it at an exorbitant price to the main corporation, the men in control being the same in both; presenting stocks as a bonus to purchasers of bonds, are other "fraudulent devices" mentioned by the Commission. It is asserted that "these flagrant methods have been largely discontinued during recent years" ("Final Report," p. 406). "Largely," but not entirely discontinued; for each of the last three devices is still employed, particularly the second and third. Within the last four years a conspicuous instance of the second method occurred in the State in which

this paper is written. The directors of a large railway system formed a company and bought two branch lines for something less than $1,500,000. They then formed another company and bought these lines from the first company at a much higher figure. Finally they sold the two small roads to their large system for $6,600,000, thus increasing the water in the latter by more than $5,000,000!

At present the methods of watering most frequently employed are: the distribution of "stock dividends" to stockholders, which consist either of surplus earnings in the form of new shares or of sales of stock at less than par value—"melon cutting," in Wall Street parlance; the substitution of a comparatively large amount of stock for a comparatively small amount of bonds; and the issuing of stock to defray current expenses of operation, such as wages, salaries, materials, etc. (*cf.* "Final Report of U. S. Industrial Commission," pp. 406, 407). For the most part, these are methods employed by concerns already established. In the organization of new companies most of the watering has been effected through commissions and bonuses to promoters and underwriters, bonuses to investors, and stock sold below par. These have been the favorite methods employed in forming the great trusts. A flagrant instance is furnished by the Standard Distilling and Distributing Company. For each $100,000 of property that this company bought it issued securities whose par value aggregated $600,000, namely, $150,000 common stock to the promoter; $100,000 preferred stock and $100,000 common stock to the seller of property, who became a shareholder in the trust; and $150,000 common stock to the underwriters (J. W. Jenks, "The Trust Problem," p. 87).

The proportion of water in some of the great corporations seems to be very large. In 1900 thirty-nine of the trusts testified to the United States Industrial Commission that the earning power of these concerns was equivalent to only 64.42 per cent. of their capitalization (*cf.* W. Z. Ripley, "Trusts, Pools, and Corporations," p. 123). Writing in the *North American Review* of October 19th, 1906, Mr. Wharton Barker

submits estimates to show that of the $13,800,000,000 of railroad capitalization in the United States only $6,000,000,000 represents money invested. Senator La Follette in his Rate bill speech last year put the amount of water at about the same figures. Six years ago Professor Frank Parsons told the Industrial Commission that "the figures of construction and equipment cost given in Poor's "Manual" from time to time indicate that the railroads of the United States are capitalized at about double what they could be built for and equipped at the present time" ("Report," Vol. IX, p. 155). He added, however, that the railroads had not inflated their securities to such an extent proportionately as the street railways and the gas companies. Against the estimates of the three authorities just quoted may be placed the statement of Mr. Slason Thompson in his "Railway Statistics" for the year ending June 30th, 1906. He maintains that the roads have actually cost more than $97,000,000 in excess of their capitalization (p. 25). Mr. Thompson prepared his report for the General Managers' Association of Chicago.

So much for the methods and the extent of stock watering. What are the arguments urged in its favor?

Some of those who defend earning power as the proper basis of capitalization, declare that securities must be sold at a discount in order to attract capital for hazardous enterprises. This contention is not valid generally, because, as pointed out by Professor Ripley, in the case of many public service enterprises risk is entirely absent (*op cit.*, p. 124). Even where the risk is great the stock could be sold at par if it provided for a relatively high rate of dividend. If investors will pay only $80 for $100 par value, six per cent. shares in a new concern, they in reality demand seven and one half per cent. on their actual investment. Hence it would seem that the stock could be sold at par if it carried the promise of the latter rate of dividend. The charge upon the company and upon consumers would be precisely the same, there would be no concealment of the relation between cost and profits, and no deception either of investors or consumers. However, the amount of water that is put into

securities through *bona fide* discounts representing merely risk, is relatively so small as to be of very little practical importance.

A second argument rests on the fact that every corporation requires a greater or less amount of ready cash for actual operation. This has to come from the sale of securities which do not represent physical cost. Many concerns, however, especially those possessing an element of monopoly, can borrow the necessary money on the security of the plant. Where this is impracticable the working capital may reasonably be obtained by the sale of additional securities, for it is part of the cost, or assets, of the enterprise. Or, it could be provided through the promise of a higher dividend on stocks representing merely physical cost. The recent German Company law prohibits stock issues for the purpose of paying organizers' commissions. These must be obtained through the sales of securities at a premium (Ripley, *op cit.*, p. 401). There is no doubt that risk, working capital, organizers' commissions, and every other item of legitimate cost not strictly included in the cost of the tangible property, could be met through this device of a higher dividend on a smaller capitalization.

Stock watering is also defended on the ground that it effects a wider distribution of securities, that it more readily attracts buyers, especially among those inclined to speculate, and that it enables the shares of a concern to sell for a higher price relatively to their earnings than they would bring if they contained no water. None of these considerations seems to be of great importance. The advantages referred to would accrue to speculators rather than to dividend-seeking investors.

The evil effects of stock watering are various. There is, in the first place, the injury to investors. When the securities of a company have been watered beyond its earning capacity, a portion of the stock will necessarily fail to yield dividends. Owing to the favorable but vague prospectuses and reports of promoters and directors, this stock is not infrequently purchased by persons who are ignorant of its true value. "There

seems to be no doubt," says the Industrial Commission, "that in many instances the promoters of combinations have been able to unload large blocks of stock at prices far above their values, as shown by later experience" ("Final Report," p. 619). Indeed, the promoters themselves sometimes overestimate future earnings, and issue stock that becomes a source of loss to themselves as well as to the outside purchaser. Large doses of water make possible such peculiar operations as that through which the United States Shipbuilding Company was bankrupted, to the serious detriment of all but one of its stockholders (*cf.* Ripley, *op cit.*, pp. 207-210). Moreover, the existence of large quantities of fictitious securities is the direct and constant occasion of much harmful stock-exchange speculation. Paying no dividends, they attract only the man who, under the guise of investing, wishes to gamble; being cheap, they are within the reach of everybody; fluctuating constantly in price, they are ideal from the speculator's viewpoint. Professor E. S. Meade, who defends earning power as the basis of capitalization, admits that "the enforcement of a law which would limit the issue of capital to the amount actually invested in an enterprise, would have the effect of banishing from the stock exchanges the low-priced speculative securities whose number is a standing reproach to our financial methods" ("Trust Finance," p. 301).

Unnecessary and wasteful competition is another evil result. The spectacle of an overcapitalized company paying dividends upon large quantities of water, provokes the organization of an unnecessary competing concern. Owing to the ensuing cut-throat competition, the new enterprise is sooner or later combined with the old, and the charges to the public are higher than ever. It is true that a monopolistic concern whose capitalization was low could impose high charges and obtain a high rate of profits, and thereby attract competition; but it is also true that such a concern could more readily lower prices to the consumer and thus prevent the new enterprise from obtaining a foothold.

But the greater part of the mischief resulting from stock watering lies in the exorbitant prices often imposed upon the

consumer. The aim is to provide a moderate rate of interest and dividend upon an excessive capitalization. It is sometimes asserted that, since a concern always strives to gain as much as it can, the amount of its securities will have no effect upon its charges. This is one of those half truths that are frequently more misleading than a whole falsehood. In competitive businesses overcapitalization does not affect prices, for competition keeps them down to the level of a fair return on the actual investment. But concerns possessing some monopoly advantage will strive harder to maintain excessive prices than if there were no holders of water clamoring for dividends. The presence of these stockholders constitutes a positive force of considerable magnitude making for higher charges. Were there no water in the stock, high prices would mean either a high dividend rate or the accumulation of a surplus. Either condition would easily provoke a demand that charges be reduced by public authority. True, the cost value of an overcapitalized business can be ascertained by valuation, but this is a difficult and highly technical process. It is invariably opposed and rendered still more difficult by the overcapitalized companies (*cf.* Ripley, *op cit.,* p. 125). Even when the official valuation has been made, the corporations can contest it in the courts, and delay for a long time the enforcement of charges, for example, railway rates, based upon it. Moreover, the rate-making authority sometimes permits a higher charge on account of overcapitalization. Thus, Commissioner Knapp, who testified before the Industrial Commission that railway rates did not seem to be much influenced by capitalization, admitted that in determining whether a particular rate were reasonable, the Interstate Commerce Commission would make some allowance for the financial condition and higher fixed charges of a road ("Final Report," p. 413). The conclusion to which all the facts point is that, while stock watering may not *directly* affect charges, that is, charges are not always high where the stock is watered and low where it is not watered, it indirectly does much to keep them higher than they would be if it did not exist. This is the verdict of the Industrial Commission, at

least with regard to the railroads ("Final Report," pp. 414, 415).

Finally, we may mention the injury to society from increased inequality of wealth distribution. This happens in so far as promoters and large investors are enabled to make exceptional profits from the sale of fictitious securities or from dividends upon them. With stock watering non-existent, the small investor would save his money, and the whole population would obtain some benefit from lower prices.

Before passing to the specific consideration of the moral aspects of stock watering, it may be helpful to examine the relative merits of the two conceptions of cost as a basis of capitalization.

Original cost is defended on the ground that investors are entitled to fair returns on their actual investment, but not to anything more. This contention seems reasonable, but it leaves out of account certain factors which would make capitalization on this basis sometimes too high and sometimes too low. It would be too high in those cases in which, owing to exceptionally high cost of labor and material, antiquated mechanical processes, or incompetent and dishonest management, the actual cost of construction had been much greater than would be the present cost. To capitalize these conditions and impose charges accordingly, would be to place an unreasonable burden upon the public. On the other hand, original cost would give too low a basis in the case of concerns whose original cost had been exceptionally small, or whose physical property, particularly real estate, had greatly appreciated in value. The members of a corporation have as much right to profit by the "unearned increment" of land as have individual owners. However, original cost is the standard adopted and enforced by the conservative, and on the whole, excellent company law of Germany.

Cost of reproduction, or replacement, means the present cost of providing physical property of the same efficiency, including the cost of obtaining land equally suited to the purpose of the business. For example, the cost of duplicating a railroad comprises the cost of rails, ties, cars, locomotives,

buildings, and all the other items of manufactured equipment, together with the right of way and terminal facilities; all these to be in the same condition of efficiency as the present property. Depreciation, as distinguished from maintenance, should also be taken into account (*cf.* Ripley, *op cit.*, pp. 136, 137). Evidently this standard differs from original cost, not only because of changes in cost of construction and of real estate, but also on account of improvements in mechanical and industrial processes. In 1900 electric motors of a greatly superior kind could be bought for one third of what they cost six years earlier. Cost of reproduction has been adopted in the anti-stock watering laws of Massachusetts, in the corporation laws framed by Congress for Porto Rico, and in the decisions of some of our State courts. The Supreme Court of Minnesota decided in 1896 that the rates fixed by the State Railroad and Warehouse Commission were reasonable, not because they afforded a fair return on the original cost of the road, which was exceptionally low, but because they provided fair interest on the cost of reproduction (*cf.* "Final Report" of the Industrial Commission, pp. 410, 411). In the case of Smythe *vs.* Ames the Supreme Court of the United States seems, but not unmistakably, to have indicated its preference for the same standard.

The chief and sufficient justification of this basis is that it is the recognized foundation of all competitive businesses. The individual, or firm, or corporation that operates a farm, or a mercantile establishment, or a factory, gets returns which are determined not by the original investment last year or several years ago, but by the amount that it costs a competitor to enter the same business now. The amount for which these concerns will sell, is likewise measured by the present cost of duplicating them. Consequently there is no good reason why monopolistic corporations should be capitalized upon, or obtain profits upon, any other basis. Cost of reproduction is likewise fair to the public, enabling it to get the benefit of industrial improvements, and compelling it to pay higher prices whenever the cost of establishing a business increases.

The morality of stock watering may be considered in relation to the investor and to the consumer. When stocks are watered for the purpose of selling them to the unwary purchaser for more than their earning power will justify, there exists an intention that is dishonest; in so far as this intention is realized, the dishonesty is actual and the sellers of the stock are morally bound to make restitution. In so far as those in control expect to use the fictitious stocks to manipulate the market by any of the dishonest methods in vogue, there is another act of intended injustice.

When the organizers or the directors of a company present some of the watered stock to themselves, as a bonus, or through the medium of dummy construction companies, or by any other device, their action is of the same moral character as when they present the stock to others. In both cases, the consumers, the patrons of the business are the ones who will be injured. It is intended to make, as far as possible, the charges sufficiently high to yield interest on the water. To issue stock with this end in view is immoral, for the simple reason that it is an attempt to get *an exorbitant rate of interest on the actual investment, the cost value of the property.* Generally speaking, this aim is always present either actually or virtually. It is actual when those who issue fictitious stock expect themselves to direct the business so that interest will be paid on the water; it is virtual when they know that the existence of the water will exert a similar pressure on their successors. When the dividends are actually paid the injustice to the consumer becomes an accomplished fact. For example, a return of six per cent. on a capitalization that is one half water, is equivalent to twelve per cent. on the cost capital. If the maximum fair rate in the business is six per cent., one half of the net returns represents unjust charges to the consumer. To that extent he is defrauded.

This estimate of the situation assumes that there is such a thing as a fair or just price for every commodity, service, or advantage, that men may lawfully buy, sell, loan, or invest. Throughout the Middle Ages and for a considerable time afterward this doctrine was universally adopted and

quite generally applied in all Christian countries. In theory at least, it held sway down to the Industrial Revolution at the end of the eighteenth century. Its practical test was the *communis æstimatio,* or social estimate. That is to say, the fair price of a thing was to be ascertained, not by merely looking to the terms of a so-called free contract between buyer and seller, but by finding out what the community regarded as just, fair, equitable. Owing partly to new industrial conditions, but chiefly to the influence of economic *doctrinaires,* all attempts to apply this rule ceased at the beginning of the nineteenth century. But the *principle* of just price was never deliberately rejected by the community; hence Mr. W. S. Lilly overstates the matter when he declares that "the very notion of a *justum pretium* has well-nigh died out of the popular mind." Not until the idea of justice itself shall have disappeared from popular consciousness will this condition be realized. What actually happened one hundred years ago was that a new interpretation of fair price, a new working rule, obtained quite general acceptance. It was very simple, and very easily applied: "a free contract is also a fair contract." But it is no longer accepted unreservedly by any considerable or weighty section of the community. It has been dislodged by the pitiless logic of events, the events that have attended the operations of trusts, monopolies, the sweating system, and the "stronger bargainer" generally. Men are coming to see that superior economic force, though exerted under the guise of a free contract, can be as inconsistent with fair dealing as the superior physical force of the highwayman's bludgeon. During practically all of the nineteenth century, "the teaching of the political economists," to quote Professor Sidgwick, "generally pointed to the conclusion that a free exchange, without fraud or coercion, is also a fair exchange." Eight years ago Professor Ashley said to the members of the British Economic Association: "I cannot help thinking that the economist may soon find himself confronted in modern life with some of the ideas underlying the old demand for 'just prices' and 'reasonable wages' which he has been accustomed to regard as quite out of place in

political economy." Less than three years later, the economist who prepared the report on Transportation for the Industrial Commission witnessed to the correctness of Professor Ashley's prophecy: "The principle is generally accepted at the present time that capital is not entitled to more than a certain fair rate of profits." Belief in this principle is the moral force behind the present widespread demand for legal regulation of the charges of public service corporations.

Now this "generally accepted" principle of industrial justice is violated whenever dividends are obtained or sought on the water in a corporation's securities. To continue the passage just cited from the "Final Report" of the Industrial Commission: "The issuance of additional securities on the basis of increasing earning power makes it possible for a company covertly to secure exorbitant returns on the actual investment" (pp. 409, 410). If this end were never sought and never realized, if the excess securities were kept merely as ornamental adjuncts of the property, no injustice would be done the consumer.

It is sometimes asserted that the profit obtained on the water when combined with that from the genuine stock, constitutes only a fair interest on the investment. This may sometimes be true, but only very rarely. As a rule the dividend rate that the corporation proposes to pay on its stock, or better, on its preferred stock, will be a sufficiently high rate on the actual or cost capital. Monopolistic companies, such as public service corporations, are entitled to derive from their actual capital the rate of interest that is obtained in competitive enterprises subject to similar risks. To put it in another way, they have a right to the rate of return that prevails among investments of first-class security, plus a percentage equivalent to the particular risk. The corporation that attempts to get more than this rate, whether by stock watering or by any other device, is endeavoring to get more than what satisfies the mass of investors, and what is approved as just by all fair-minded authorities.

This claim that the consumers are treated unjustly when they are charged more than the equivalent of fair interest on

the actual investment of a corporation, does indeed run counter both to the working maxims of business ethics and to the business privileges conceded by civil legislation. But we must remember that modern business, in so far as it takes any conscious account of ethics, reposes, as above suggested, upon a mistaken belief in the ethical efficacy of free contract and competition; and the toleration of exorbitant profits by the law is a result of the same belief. The only practical alternative to the principle we are defending is the absurd assumption that a *monopoly* may rightfully charge what it pleases. For the questions of stock watering, and excessive charges, and excessive interest in general, have practical importance only in the case of corporations possessing some kind of monopoly. Concerns that are subject to real and active competition have no incentive to water their stock, since they have no hope of obtaining more than ordinary returns. Even if their stock is watered and does pay dividends on the water, these will be due to exceptional business management, and therefore will be justifiable. Now the claim that a monopolistic business may charge what prices it pleases, has never been sanctioned either in popular ethics or in law. Concerning men's ethical notions of the matter, sufficient has been said above; as to the attitude of legislation, the common law of England and America has for centuries regarded monopolies as harmful to public welfare (*cf.* Ripley, *op cit.*, pp. 231-263). Now that unlimited competition has proved unequal to the task of preventing the *existence* of monopoly, this principle of the common law is everywhere being applied, and supplemented by special statutes. The latter are aimed at the dissolution or restriction of artificial monopolies, and a fair regulation of the charges of natural monopolies.

The man who rejects all these authorities, and still contends that he can find ethical justification for the practice of exacting an exorbitant or exceptional rate of interest upon the actual investment of a corporation, has set himself an impossible task. In the first place, he will find himself confronted by the fact that the moral right to *any* interest (that is, pure interest, as distinct from insurance against risk, and

reward for directive activity) from an investment is not among the self-evident propositions. At least one economist (C. S. Devas, "Political Economy," p. 507) holds that the investor is sufficiently remunerated through the preservation of his capital by those who utilize it and renew it; others maintain that sufficient capital would be forthcoming without the receipt of interest (*cf.* J. A. Hobson, "The Economics of Distribution," pp. 257-265). Both of these views seem extreme; but it is very probable that as much if not more capital than is now available would be forthcoming if the rate of interest were much lower than at present. Upon what grounds, then, can a higher rate than the prevailing one be justified? Again, the Catholic Church, which has discussed and developed very fully the doctrine of the morality of interest, teaches that it is not lawful to charge more than a *moderate* rate on loans. By this is meant the rate which in any given conditions the social estimate judges to be adequate and reasonable. With allowance made for the difference in risk, the same principle ought to apply to invested capital.

Those public service corporations whose charges have been fixed by a perfectly free and honest contract between themselves and the public authority, would seem to be justified in taking all the profits that result from this arrangement. Typical examples are street railways and gas companies. In the conditions just specified it may be assumed that the charges were generally regarded as fair at the time they were fixed. Even in these cases, however, there is no sufficient reason for watering the stock.

The fixing of charges by public authority will not always justify the taking of exceptional profits. For example, when the State makes a reduction in existing rates, its action is usually opposed by the corporation, with the result that the new charges are merely a practical choice of evils, and do not represent what the public authorities or the competent social estimate regards as completely equitable.

Stock watering is sometimes defended as a means of adequately compensating exceptional directive ability. Other ways exist, however, ways that are more open and straight-

forward, by which this end can be attained. Salaries can be raised, and the surplus can be distributed to the stockholders in the form of an increased dividend. The latter method is much preferable to the stock dividend, which is a capitalization of earning power that may be only temporary. In general it may be said that any legitimate distribution of unusual profits among the stockholders can be accomplished by increasing the cash dividends. And this will always be feasible. Neither the public nor its official representatives will oppose such a course when it is fully explained and openly carried out.

Limitation of dividends to the actual investment is sometimes denounced as unfair to the "innocent investor." The objection is not as formidable as it appears at first sight. In the first place, the consumers, who have to provide for dividends on the fictitious capital, are much more numerous, and stand to lose much more than those persons who have purchased the water under the impression that it represented real property. A large proportion of the possessors of the fictitious securities are not "innocent"; they deserve to be classed as speculators. In the second place, while the State has been negligent in failing to prevent stock watering, it is under no obligation to protect even the *bona fide* investors in these securities. President Stickney's contention that, inasmuch as the railways are "*quasi* agents" of the State, their stock watering operations ought to be ratified and protected by their principal, the State, is inconclusive and farfetched ("The Railway Problem," pp. 199, 200). For he admits that the State is not obliged to protect the innocent investor when the watering process has been attended by fraud. Now with the exception of stock that is sold at a strictly necessary discount, practically all watering is fraudulent, inasmuch as it is virtually an attempt to impose unreasonable burdens upon the public. Besides, the railroad is not formally and fully an agent of the State, but only a "*quasi* agent." No such strict relation of principal and agent is admitted by the United States Supreme Court, which decided in Smythe *vs.* Ames that a railroad corporation "may not impose upon the public

the burden of such increased rates as may be required for the purpose of realizing profits upon such excessive valuation or fictitious capitalization." Finally, the maxim *caveat emptor* ought to apply as fully to the "innocent investors" in watered stocks as to the buyer of anything else. The State does not undertake to protect against loss the man who lends his money on insufficient security, nor the man who is induced by glowing general descriptions to invest in a worthless copper mine, nor the man who buys stolen goods from a pawn shop, nor even the man who is robbed through the lack of efficient police protection. In so far as it makes any attempt in this direction, the State penalizes the perpetrators of the fraud or crime, but not the general public. Similarly in the case before us, whatever action it takes in favor of the investor ought to be directed, not against the general public, but against the issuers of fictitious securities.

In all that has been said in this paper concerning the immorality of stock watering and of exacting the means of paying dividends on water, *duplication cost* has been kept in mind as the measure of actual capital and the true basis of equitable earnings. It is admitted, however, that *original cost,* or actual investment, is not, or at least cannot be proved to be, an unfair standard. If the "dummy construction company" and the outright stock bonus be excluded, President Stickney's rather liberal conception of original cost can be accepted as substantially fair: "The amount which, under the circumstances existing at the time the road was built, it actually cost the company which constructed it, including all the discounts it was obliged to make on the sales of its securities, and the commission it had to pay on the sales; also the loss of interest during construction and after the line was completed, while it was developing its business up to the point of earning its interest, together with all the additions which have been made from time to time, not paid for out of earnings" (*op cit.*, p. 197).

Stock watering is typical of almost all the improper practices of corporations. It is typical because it is essentially an attempt to get excessive and unjust profits on capital. It

has its origin in the greed that is not satisfied with reasonable returns. To this greed, to this desire for excessive profits, is due all that is formidable or worth considering in the current opposition to corporations. The undiscriminating and professional corporation-hater is so rare that he may safely be left out of account; but the men who believe that it is improper, intolerable, and wrong for monopolistic concerns to obtain more than a reasonable rate of interest, easily constitute a large majority of the American people. And the patriot, the true conservative, the true exponent of justice, the true friend both of the corporations and of the general public, is the man who strives openly, earnestly, and incessantly to remove the conditions that make such extortion possible. The Socialist conceives the industrial problem as that of the abolition of private capital and profits. In the interest of true civilization and genuine progress, let us hope that this conception will never be shared by any considerable section of our population. To-day the majority regard as the most urgent phase of the industrial problem, not the abolition of *private capital,* but the abolition of *unfair and unreasonable profits.*

JOHN A. RYAN.

ST. PAUL'S SEMINARY.